COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

# FISCAL NOTE

L.R. No.: 0716-02
Bill No.: Perfected HCS for HB 131
Subject: Business and Commerce; Revenue Dept.; Taxation and Revenue - Sales and Use
Type: Original
Date: March 28, 2007

Bill Summary: Would provide a number of additional exemptions from state and local sales and use taxes and motor fuel taxes, and allow a tax credit for certain eligible expenses of freight line companies.

## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2008 | FY 2009 | FY 2010 |
| General Revenue | (Unknown) | (Unknown) | (Unknown) |
| **Total Estimated Net Effect on General Revenue Fund** | **(Unknown)** | **(Unknown)** | **(Unknown)** |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2008 | FY 2009 | FY 2010 |
| School District Trust | (Unknown) | (Unknown) | (Unknown) |
| Conservation | (Unknown) | (Unknown) | (Unknown) |
| Parks and Soil | (Unknown) | (Unknown) | (Unknown) |
| **Total Estimated Net Effect on Other State Funds** | **(Unknown)** | **(Unknown)** | **(Unknown)** |

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 11 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2008 | FY 2009 | FY 2010 |
| | | | |
| | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2008 | FY 2009 | FY 2010 |
| | | | |
| | | | |
| **Total Estimated Net Effect on FTE** | **0** | **0** | **0** |

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2008 | FY 2009 | FY 2010 |
| **Local Government** | **(Unknown)** | **(Unknown)** | **(Unknown)** |

## FISCAL ANALYSIS

ASSUMPTION

State and local sales and use tax exemption for the costs of utilities, chemicals, machinery and equipment, and materials used to produce a product.

Officials at the **Department of Revenue** (DOR) assume no fiscal impact for their organization for this proposal. DOR officials stated there would be a reduction to General Revenue equal to the amount of tax currently being paid by companies on these purchases. This amount is unknown to DOR.

Officials from the **Department of Conservation** (**MDC**) state this proposal would appear to have a negative fiscal impact on MDC funds since it appears to exempt utilities, chemicals, and materials used to produce a product from state and local sales and use tax. However, MDC is unable to provide the estimated amount and will rely on DOR for the fiscal impact of this legislation.

Officials from the **Department of Natural Resources** assumed this proposal would authorize an exemption from state and local sales and use tax for the cost of utilities, chemicals, and materials used to produce a product. The Department's Parks and Soils Tax Fund is derived from a one-tenth of one percent sales and use tax pursuant to Section 47(a) of the Missouri Constitution. Therefore, any additional sales and use tax exemption would appear to be a loss to the Parks and Sales Tax Fund. The cost of utilities, chemicals, and materials used to produce a product is unknown; however, the department would not anticipate a significant fiscal impact from this proposal.

Officials from the **University of Missouri Economic Policy and Research Center** stated they were unable to estimate the potential impact of a previous version of this proposal.

**Oversight** assumes there would be a significant but unknown negative fiscal impact from this proposal, and that the state General Revenue Fund, Conservation Commission Fund, Parks and Soils Fund, School District Trust Fund, and local governments would have a reduction in sales tax revenues if the proposal is enacted.

ASSUMPTION (continued)

Sales tax exemption for amounts paid for temporary use of coin-operated amusement devices and for vending machines.

Officials from the **Department of Revenue** assume the proposal would have no fiscal impact on their organization.

**Oversight** assumes this proposal would clarify an existing exemption and would have no significant fiscal impact on state or local government organizations.

Sales tax exemption for television and radio broadcasting equipment.

Officials from the **Office of Administration**, **Division of Budget and Planning** (BAP) assume the proposal would provide an exemption from local sales tax for machinery, equipment, materials, supplies and utilities used directly in the installation, construction or operations in radio and television broadcasting. There should be no added cost to the Office of Administration/Budget and Planning as a result of this bill. However, there would be an unknown loss of local revenues.

Officials from the **Department of Conservation** (MDC) assume the proposal legislation would appear to have a negative impact on MDC funds. However, MDC is unable to provide an estimated impact and will rely on DOR for the fiscal impact of this legislation.

Officials from the **Department of Revenue** (DOR) assume the proposal would authorize a sales tax exemption on machinery, equipment, and parts, and the materials, supplies, and utilities required for the installation, construction, or operation of such machinery, equipment, and parts used directly in television and radio broadcasting. Currently, federally mandated equipment purchases are exempted from state and local taxes.

In response to a similar proposal, (HB 128 LR 0724-01) officials from **St. Louis County** stated that any exemptions to sales tax amount to a loss in revenue for the County. In this case we do not have a good idea of the magnitude because we do not know what percent of county sales falls into this category.

ASSUMPTION (continued)

**Oversight** was unable to gather information directly relevant to the sales tax exemption created by this proposal. However, according to the Statistical Abstract of the United States 2005, the estimated expenses for radio and television broadcasting that were related to machinery, equipment, parts, materials, supplies in 2002 were:

| | |
|---|---|
| Purchased materials, parts and supplies | $ 316,000,000 |
| Depreciation | $3,045,000,000 |
| Lease and Rental | $ 871,000,000 |
| TOTAL (for United States) | $4,232,000,000 |

Taking 2% of this amount (Missouri's portion) gets an estimated amount of $84,640,000 of such expenditures in Missouri. Multiplying this amount by an estimated 1.5% local sales tax rate yields a loss of revenue of $1.27 million annually. Oversight assumes the actual fiscal impact could be larger or smaller since the available information did not segregate expenditures subject to tax, and since federally mandated equipment purchase are currently exempted from tax. Oversight will assume the loss in local tax revenue would exceed $100,000 per year.

Sales tax exemption for purchases made for fulfilling United States government defense contracts.

Officials from the **Department of Conservation** (MDC) stated that the proposed legislation could have a fiscal impact on MDC funds. However, MDC was unable to provide an estimated impact and will rely on DOR for fiscal impact of this legislation.

Officials from the **Department of Revenue** (DOR) assume the proposal would have no fiscal impact on their organization. DOR did not provide an estimate of the impact on state revenues.

Officials from the **Office of Administration**, **Division of Budget and Planning** assume the proposal would have no fiscal impact on their organization.

Officials from the Cities of **Mexico** and **St. Robert**, and the Counties of **Callaway**, **Clay**, and **Pulaski** did not respond to our request for information.

ASSUMPTION (continued)

In response to a similar proposal, (HB 127 LR 0723-01) officials from the **City of Poplar Bluff** were not able to provide an estimated impact but assumed there would be a negative impact because of all the government contracts that are conducted in the area.

**Oversight** assumes this proposal would result in an unknown negative fiscal impact on the state's General Revenue Fund and other state funds which receive sales tax revenues, and on local governments.

**This proposal could decrease Total State Revenue.**

Tax credit for certain eligible expenses of a freight line company.

In response to a similar proposal in a prior session, (HB 227 LR 0608-01 (2005)) officials from the **Department of Transportation (MoDOT)** assumed that the Department of Revenue would be responsible for reimbursing local political subdivisions out of the General Revenue Fund. Therefore, MoDOT assumed no fiscal impact from the proposal.

In response to a similar proposal in a prior session, (HB 227 LR 0608-01 (2005)) officials from the **State Tax Commission (TAX)** stated the proposed legislation would create a tax credit for a freight line company's ad valorem property tax.

TAX assumes that only those freight line companies that are defined by Section 137.1003. (4) RSMo would be eligible for the tax credit. With this assumption, there would be approximately 350 freight line companies that could qualify for this credit. In calendar year 2002, the amount of freight line ad valorem property tax was $2.6 million; in calendar year 2003, the amount was $2.5 million; and in calendar year 2004, the amount was $2.6 million.

The amount of taxes levied each year currently appears to remain fairly stable. Therefore, TAX assumes that in calendar 2005 and the subsequent following years the amount of taxes would be approximately $2.6 million. If TAX assumes that each of these companies will have significant eligible expense to off-set the total amount of tax due, the State of Missouri would be required to annually reimburse the political subdivisions approximately $2.6 million. TAX assumes this legislation would be effective on August 28, 2005 and the credit would be effective with calendar year 2006 property taxes collected in FY 2007.

ASSUMPTION (continued)

In response to a similar proposal in a prior session, (HB 227 LR 0608-01 (2005)) officials from the **Department of Revenue (DOR)** stated that since the credit will be applied on forms prescribed by TAX, impact to DOR would be minimal.

**Oversight** assumes this tax credit could be administered by TAX and DOR with existing resources. According to the DOR's Comprehensive Annual Financial Report (CAFR) for FY 2003, $2,637,000 in County Private Car Tax collections were distributed to the counties and the City of St. Louis. On top of this, DOR is allowed to retain one percent of the tax receipts to cover their collection costs. Also, prior to the distribution to the counties and St. Louis City, six-tenths of one percent of the fund is transferred to the blind pension fund. Therefore, for purposes of this fiscal note, Oversight will assume the new tax credit could reduce local tax collections up to $2.68 million ($2,637,000 distributed, plus a collection fee and Blind Pension transfer taken out before distribution). At the local government level, per Section 137.1021, RSMo, 70 percent of the transfer from DOR goes to the local school districts and 30 percent goes to the county general revenue fund.

This $2.68 million would be distributed as follows:

| | |
|---|---|
| 1 percent of collections to General Revenue for DOR collection fee | $ 26,400 |
| .6 percent before distribution to the Blind Pension fund | $ 15,822 |
| 70 percent of distribution to local school districts (.70 x 2,637,000) | $ 1,845,900 |
| 30 percent to local county general revenue funds (.30 x 2,637,000) | $ 791,100 |
| TOTAL | $ 2,679,222 |

**Oversight** assumes this tax credit would result in a reduction of tax revenue beginning in FY 2008. Oversight assumes the annual reimbursement to the local political subdivisions for any decrease in revenue due to this program will be from the General Revenue fund and will occur in the same year as the reduction. Oversight has ranged the reduction in income from $0 (if no tax credits are claimed) to the full amount described above, since, the tax credit can not exceed a company's liability for a given year. Oversight assumes the County Private Car Tax will be stable in the years represented in this fiscal note. Oversight has not reflected any indirect potential benefit resulting from this tax credit in the fiscal note.

**This proposal could reduce Total State Revenues.**

ASSUMPTION (continued)

Motor Fuel Tax Exemption for Mass Transit Systems

Officials at the **Missouri Department of Transportation** (**MoDOT**) assumed a similar proposal (HB 247 LR 0179-01) would exempt motor fuel used for certain public transportation purposes from motor fuel tax.

MoDOT's current funding has been committed to projects over the next 5 years in the Statewide Transportation Improvement Program. Any decrease in funding will hamper the department's ability to fulfill its commitments. A loss in transportation funding also could mean the department's bonding efforts could be jeopardized. Any impact to Missouri highway revenues could invoke concern among bondholders, which would cause interest rates on future bonds to increase.

MoDOT calculated that in Fiscal Year 2006 that transit authorities consumed an estimated 9,943,211 gallons of gasoline at the State Gas Tax Rate of $.17 per gallon for a total of $1,690,346 in gas tax being paid. MoDOT then calculated the loss of that money for the state, cities and counties.

Officials at the **Department of Revenue** (**DOR**) assumed a similar proposal (HB 247 LR 0179-01) would have no fiscal impact to their organization. DOR assumes this legislation would establish an exemption. Exemptions reduce state tax due, therefore it would reduce state revenues.

The excise tax section anticipates additional refunds to process due to this exemption. This may impede process time. DOR currently does not track fuel usage, therefore, cannot determine the loss of fuel tax revenues the state will experience due to this exemption. Due to the Statewide Information Technology Consolidation, the department's response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 1 existing CIT III for 1 month at a rate of $4,186.

ASSUMPTION (continued)

Officials from the **City of Kansas City** assumed a similar proposal (HB 247 LR 0179-01) would apply to a city transportation authority. The City of Kansas City does not operate a transportation authority, those mass transit services are provided by the Kansas City Area Transportation Authority, which is partially funded by Kansas City. Any savings enjoyed by the KC ATA may be indirectly enjoyed by the City of Kansas City through greater services for the money now spent for transportation services if the KC ATA has additional funds available.

The **Kansas City Area Transportation Authority** did not respond to Oversight's request for fiscal impact.

Officials at the **City of Centralia** assumed a similar proposal (HB 247 LR 0179-01) could cause a minimal reduction in gas tax distribution statewide that would result in slight reduction to city appropriation.

No other city responded to **Oversight's** request for fiscal impact.

**Oversight** assumes the motor fuel tax exemption will be a loss to the Road Fund.

State and local sales tax exemption for purchases made by sports authorities.

Oversight assumes this organization would be exempt from taxes as a part of the state of Missouri.

| FISCAL IMPACT - State Government | FY 2008 (10 Mo.) | FY 2009 | FY 2010 |
|---|---|---|---|
| **GENERAL REVENUE FUND** | | | |
| Loss - General Revenue Fund<br>Sales tax exemption | (Unknown) | (Unknown) | (Unknown) |
| **ESTIMATED NET EFFECT ON GENERAL REVENUE FUND** | **(Unknown)** | **(Unknown)** | **(Unknown)** |
| **OTHER STATE FUNDS** | | | |
| Loss- School District Trust Fund<br>Sales tax exemption | (Unknown) | (Unknown) | (Unknown) |
| Loss- Conservation Fund<br>Sales tax exemption | (Unknown) | (Unknown) | (Unknown) |
| Loss - Parks and Soil Fund<br>Sales tax exemption | (Unknown) | (Unknown) | (Unknown) |
| **ESTIMATED NET EFFECT ON ALL OTHER STATE FUNDS** | **(Unknown)** | **(Unknown)** | **(Unknown)** |

| FISCAL IMPACT - Local Government | FY 2008 (10 Mo.) | FY 2009 | FY 2010 |
|---|---|---|---|
| **LOCAL GOVERNMENT** | | | |
| Loss - Local Governments<br>Sales tax exemption | (Unknown) | (Unknown) | (Unknown) |
| **ESTIMATED NET EFFECT ON LOCAL GOVERNMENT** | **(Unknown)** | **(Unknown)** | **(Unknown)** |

FISCAL IMPACT - Small Business

Businesses that purchase utilities, chemicals, machinery and equipment, and materials to produce a product could be impacted as a result of this proposal.

FISCAL DESCRIPTION

This proposal would provide an exemption from state and local sales and use tax for the costs of utilities, chemicals, machinery and equipment, and materials used to produce a product. Other provisions would exempt from sales tax amounts paid for temporary use of coin-operated amusement devices and also exempts vending machines; provide an exemption from sales tax for television and radio broadcasting equipment; provide an exemption from sales tax for purchases made for fulfilling United States government defense contracts; allow a tax credit for certain eligible expenses of a freight line company; provide a motor fuel tax exemption for mass transit fuel; and exempt purchases made by sports authorities from state and local sales and use tax.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Conservation
Department of Revenue
Department of Natural Resources
University of Missouri
Economic Policy and Research Center

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